

Do you need a CPA to assist you in preparing your financial statements?

In today's economy there is an increased need for reliable and accurate financial statement information. Accurate information is necessary for both the Company's owners to make business decisions and for outside parties to make investment or lending decisions. Whether you are trying to obtain or retain financing from banks or investors, or decide to commit to a business expansion, the recent financial crisis has elevated the importance of financial statements.

The level of reliance a user can place on financial statements is dependent upon many factors. Most importantly is that financial reporting should be consistent from year to year, represent faithfully and clearly the economic conditions and performance of the company, and be consistent between companies so as to allow comparison within industries. To achieve these goals, a company should be following generally accepted accounting principles (GAAP). GAAP is basically a set of rules and standards that provide accountants with a consistent framework for preparing financial statements.

The emphasis placed upon consistent and reliable financial statements cannot be stressed enough. Sometimes the financial statements are the only opportunity a company has to communicate with the bankers or investors who are making business decisions with the assumption that the financial statement are accurately presented. Financial statements prepared in accordance with GAAP provide readers with a consistent format that incorporates the principles set forth by the regulators of accounting standards.

Due to the various complexities of GAAP, many companies find they need the assistance of a Certified Public Accountant (CPA) to correctly apply the accounting rules. The added benefit of a CPA goes beyond consulting on accounting rules though, as the CPA also can provide some assurance about the information presented.

In order for banks and investors to ensure that the information is being presented in accordance with GAAP they often rely upon CPAs to provide a stamp of approval. The CPA stamp of approval falls within the scope of "CPA Assurance Services". The three primary types of assurance services that CPAs provide for financial statements are compilations, reviews and audits:

- A compilation results in no expression of an opinion or any other form of assurance from the CPA, but will provide the reader with a consistent format in which to analyze the financial statements. Compiled financial statements simply involve a CPA presentation of the Company's financial information in the generally accepted format of financial statements. The CPA will assist the Company in understanding and applying generally accepted accounting principles, but the CPA does not test the information presented. The CPA offers no assurance on the correctness of the financial statements.
- A review results in limited assurance by the CPA on the Company's financial statements. As with a compilation, the statements are also presented in a generally accepted format. While the financial information presented still

remains the representation of the Company's owners, during a review the CPA will perform inquiries of Company personnel along with other analytical procedures to allow the CPA to offer a limited assurance that the amounts are fairly presented. It is important to remember that in a review many procedures to confirm the accuracy of the data are not required, such as there is no verification of the financial information with third parties or no tests of internal controls, and for that reason a review is substantially less in scope than an audit.

- An audit provides the highest level of CPA assurance about whether the financial statements are free of material misstatements. Besides presenting the Company's financial statements in a generally accepted form, when performing an audited examination of a Company's financial records the auditor does significant testing and corroboration of the Company's financial information with outside vendors, customers, and lenders. An audit also considers the Company's internal controls and examines evidence to support the amounts and disclosures in the financial statements.

The level of assurance service selected is typically influenced by the financial statement user (generally the bank or investor). The user decides the level of comfort they require from the financial statements for their needs and then communicates this to the Company's management. Most often "cost" is a significant consideration in determining the type of service required. If cost were not an issue, it is clear that anyone relying on the financial statement would require that an audit be performed. Since that is not feasible for many companies, the banks and investors have learned to rely more heavily on reviewed or compiled financial statements.

It is important for the Company's management to have an understanding of these different levels of CPA services in order to have educated discussions with the bank on the type of CPA financial service necessary for their situation. The goal is to balance the level of assurance required while minimizing the cost impact on the company both in respect to time and money.